



Republican Policy Committee

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Bill Clinton Goes to (Class) War: The Earned Income Credit Campaign

In the ongoing warfare over class, President Clinton is a decorated veteran. Evidently he wants to earn a campaign ribbon in the battle over the Earned Income Credit. To do it, he has waged a deliberate disinformation assault on Republican reforms to a program that he recklessly expanded. The White House continues to view any effort at reform on behalf of the American taxpayer as an apparent attack on their sovereignty.

On October 24, 1995, the Joint Committee on Taxation (JCT) released a letter that blunts the White House's class warfare battle plans. It shows that **the Senate proposal is nothing more than a restraint in the rate of increase in spending** and that our proposal is part of a real tax reduction and reform package that helps low-income working families and is the largest in over a decade.

Charges and Retreats

The White House has continued to use arguments that the press has admitted to be incorrect. For example:

Charge: The October 19, 1995, *Wall Street Journal* stated that the distribution analysis done by the Joint Tax Committee demonstrated that half of all households would experience a tax increase under the Senate Finance proposal. This charge was repeated by Democrats and an Administration official during the Finance Committee's markup on the spending reduction proposals.

Retreat: The Joint Committee on Taxation stated in its October 24 response: "*No factual basis exists for the assertion (since retracted) contained in the Wall Street Journal of last week asserting that one-half of all households would experience a tax increase under the Senate Finance Committee revenue recommendations.*"

The *Wall Street Journal* had the scruples to print a retraction when informed they were wrong. The White House merely increased the volume.

Charge: JCT changed its distribution analysis of the Senate Finance Committee's revenue recommendations in response to a request by Senator Moynihan.

Retreat: JCT's October 24 reply: "No change was made in our analysis of the Senate Finance Committee revenue recommendations in response to Senator Moynihan's request. *The analysis of the Senate Finance Committee revenue recommendations that we provided ... accurately analyzes the legislation* which was before the Committee last week. The analysis provided to Senator Moynihan incorporated the effects of legislative proposals not included within the Senate Finance Committee revenue recommendations..." (Emphasis added)

The Battlefield

First, we must accurately define what we are talking about — the Earned Income Credit— or EIC, as it is listed on the 1040 tax forms and in the Internal Revenue Code. Despite the common inclusion of "tax" in its title, **its only relation to taxes is that it is allowed to offset them.** In fact, it is really a *cash grant* and **84 percent** of the program's spending is in the form of checks to recipients.

Second, **we are not talking about any "cuts" to this program** — spending goes up under our proposal over last year and in every year for this program. **Only in Washington is a spending increase called a cut, and only in the White House is it called a tax increase.**

Third, our changes are **in contrast to the Clinton expansion** of the program in 1993 that fundamentally changed this program from its original intent — helping low-income families with children.

President Clinton's 1993 "Reforms"

President Clinton loves to quote Ronald Reagan: "You know, President Reagan said it [EIC] was the best anti-poverty program ever devised" (*New York Times*, 9/19/95). But, that was then and this is now — that is after the 1993 law the President signed that greatly expanded the scope of the program.

By Clinton's logic, if you liked steak you would love a cattle stampede. That is what this program has become under Clinton because he (as part of the 1993 reconciliation package which only his party supported) diverted it from its original focus — working, low-income families with children:

- Between 1993 and 1994 the number of recipients skyrocketed 20 percent from 15.1 million to more than 18 million, and spending shot up 27 percent.
- By 2002, families with earned income up to \$34,613 qualify.
- Childless families now qualify. Even the EIC's originator disagrees with this. A May 9, 1995, *Wall Street Journal* notes that former Senator Russell Long, who long chaired the Senate Finance Committee, "suggests disallowing individuals without children to claim

the credit. 'I don't think we can afford to spend to get people without children to work for their own benefit,' " said Senator Long, whose home state of Louisiana has one of the highest shares of taxpayers who use the EIC.

- Individuals are allowed to qualify.
- Income loopholes were not closed, thus allowing those with substantial real but unearned income still to qualify.
- Illegal aliens qualify — 160,000 in 1994.
- Fraud and abuse was not addressed. According to the General Accounting Office, this program has lost \$25 billion to fraud and abuse since its inception and is estimated to lose another \$37 billion over the next five years without reforms.

Fourth (returning to the discussion of the Senate proposal), **there is no tax rate increase of any kind in the Senate proposal. NONE.** And no families with children will have a higher tax liability of any kind. NONE. In fact, the actual tax cut distribution of our complete revenue recommendation package does not significantly change, even when Democrats attempted to skew it [the following information comes from the JCT October 24 letter]:

Percentage of Tax Reduction to Income Groups

		<u>Under \$75,000</u>	<u>Under \$100,000</u>
Real	1996	77%	90%
	2000	68%	83%
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Skewed	1996	72%	88%
	2000	61%	79%
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w/ EIC revenue effects	1996	75%	89%
	2000	65%	81%

- Families do better under our tax proposals — with the \$500-per-child tax credit, marriage penalty relief, and our EIC reforms, as the provided tables make clear. For example, those who will come out ahead include:

— Currently eligible EIC families with incomes under \$12,000: one-child families will see the maximum EIC increase from \$2,094 in 1995 to \$2,156 in 1996; and, families with two or more children will see the maximum EIC increase from \$3,110 in 1995 to \$3,208 in 1996.

— Since these families would not owe any taxes under our proposals, they would receive the full amount of their EIC as a cash grant.

— Families at or near the poverty line (one-child families with earnings below \$12,500 and two-child families with earnings below \$15,500) still would receive an EIC in excess of the families' entire payroll tax liability — both employee and employer shares.

- Additionally, less than 1.5 percent of all households will have any income-tax increase due to our re-targeting reforms in comparison to the Clinton free-spending expansion of 1993. And they are the originally unintended beneficiaries:

— 1.2 million childless households, who only became eligible two years ago;

— 700,000 households — less than 5 percent of currently EIC eligible families — who are removed by our anti-fraud, anti-illegal alien, and unearned-income-loop-hole-closing (affluence) provisions.

Opponents of reform have tried to use the EIC to get traction for their class warfare arguments. These do not hold up under our proposal any more than they do under current law. In fact, quoting from the October 24 letter from Joint Committee on Taxation:

"The share of federal taxes paid by higher-income individuals under the Senate Reconciliation bill would actually increase as compared with Federal taxes paid under current law."

(Joint Committee on Taxation letter prepared by Kenneth Kies, chief of staff, to Finance Committee Chairman Roth, 10/24/95)

The Senate proposal is straightforward and fair. We stop the drift in the program under President Clinton that has led it away from focusing on the low-income, away from families, away from children, away from encouraging work, and away from the intended eligible. We return it to its original focus on low-income working families with children, and we relieve the burden on millions of other taxpayers in the process.

In President Clinton's class warfare campaign on the Earned Income Credit, the casualties have been the truth and the American taxpayers.

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American Families Better Off Tomorrow Than Today Under Senate GOP Bill

Married with Two Children

AGI = Earned Income	Today		Senate GOP Bill — 1996	
	EIC Check from Uncle Sam	Tax Check to Uncle Sam	EIC Check from Uncle Sam	Tax Check to Uncle Sam
\$5,000	\$1,800	\$0	\$1,800	\$0
\$10,000	\$3,110	\$0	\$3,208	\$0
\$15,000	\$2,360	\$0	\$2,488	\$0
\$20,000	\$832	\$0	\$1,429	\$0
\$25,000	\$0	\$929	\$171	\$0
\$30,000	\$0	\$2,018	\$0	\$950
\$40,000	\$0	\$3,518	\$0	\$2,450
\$50,000	\$0	\$5,018	\$0	\$3,950

Single with Two Children

AGI = Earned Income	Today		Senate GOP Bill — 1996	
	EIC Check from Uncle Sam	Tax Check to Uncle Sam	EIC Check from Uncle Sam	Tax Check to Uncle Sam
\$5,000	\$1,800	\$0	\$1,800	\$0
\$10,000	\$3,110	\$0	\$3,208	\$0
\$15,000	\$2,098	\$0	\$2,488	\$0
\$20,000	\$337	\$0	\$1,429	\$0
\$25,000	\$0	\$1,424	\$0	\$347
\$30,000	\$0	\$2,513	\$0	\$1,468
\$40,000	\$0	\$4,013	\$0	\$2,968
\$50,000	\$0	\$5,513	\$0	\$4,468

Married with One Child

AGI = Earned Income	Today		Senate GOP Bill — 1996	
	EIC Check from Uncle Sam	Tax Check to Uncle Sam	EIC Check from Uncle Sam	Tax Check to Uncle Sam
\$5,000	\$1,700	\$0	\$1,700	\$0
\$10,000	\$2,094	\$0	\$2,156	\$0
\$15,000	\$1,359	\$0	\$1,525	\$0
\$20,000	\$0	\$190	\$266	\$0
\$25,000	\$0	\$1,643	\$0	\$1,083
\$30,000	\$0	\$2,393	\$0	\$1,833
\$40,000	\$0	\$3,893	\$0	\$3,333
\$50,000	\$0	\$5,393	\$0	\$4,833

Single with One Child

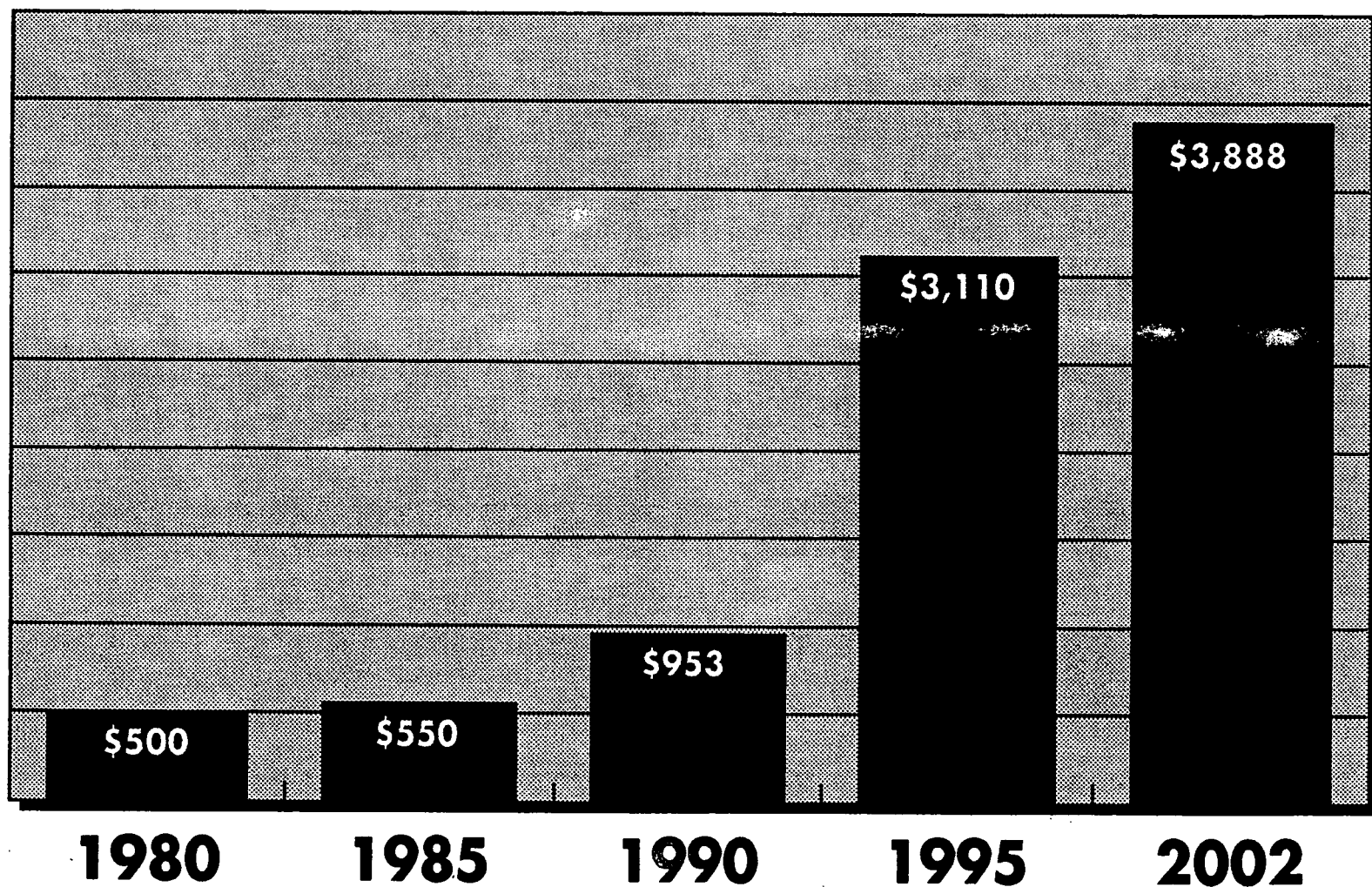
AGI = Earned Income	Today		Senate GOP Bill — 1996	
	EIC Check from Uncle Sam	Tax Check to Uncle Sam	EIC Check from Uncle Sam	Tax Check to Uncle Sam
\$5,000	\$1,700	\$0	\$1,700	\$0
\$10,000	\$2,094	\$0	\$2,156	\$0
\$15,000	\$864	\$0	\$1,425	\$0
\$20,000	\$0	\$685	\$0	\$252
\$25,000	\$0	\$2,138	\$0	\$1,600
\$30,000	\$0	\$2,888	\$0	\$2,350
\$40,000	\$0	\$4,388	\$0	\$3,850
\$50,000	\$0	\$5,888	\$0	\$5,350

Source: Joint Committee on Taxation

Note: Combined effects of EIC reforms, \$500 child credit and marriage penalty relief.

Earned Income Credit

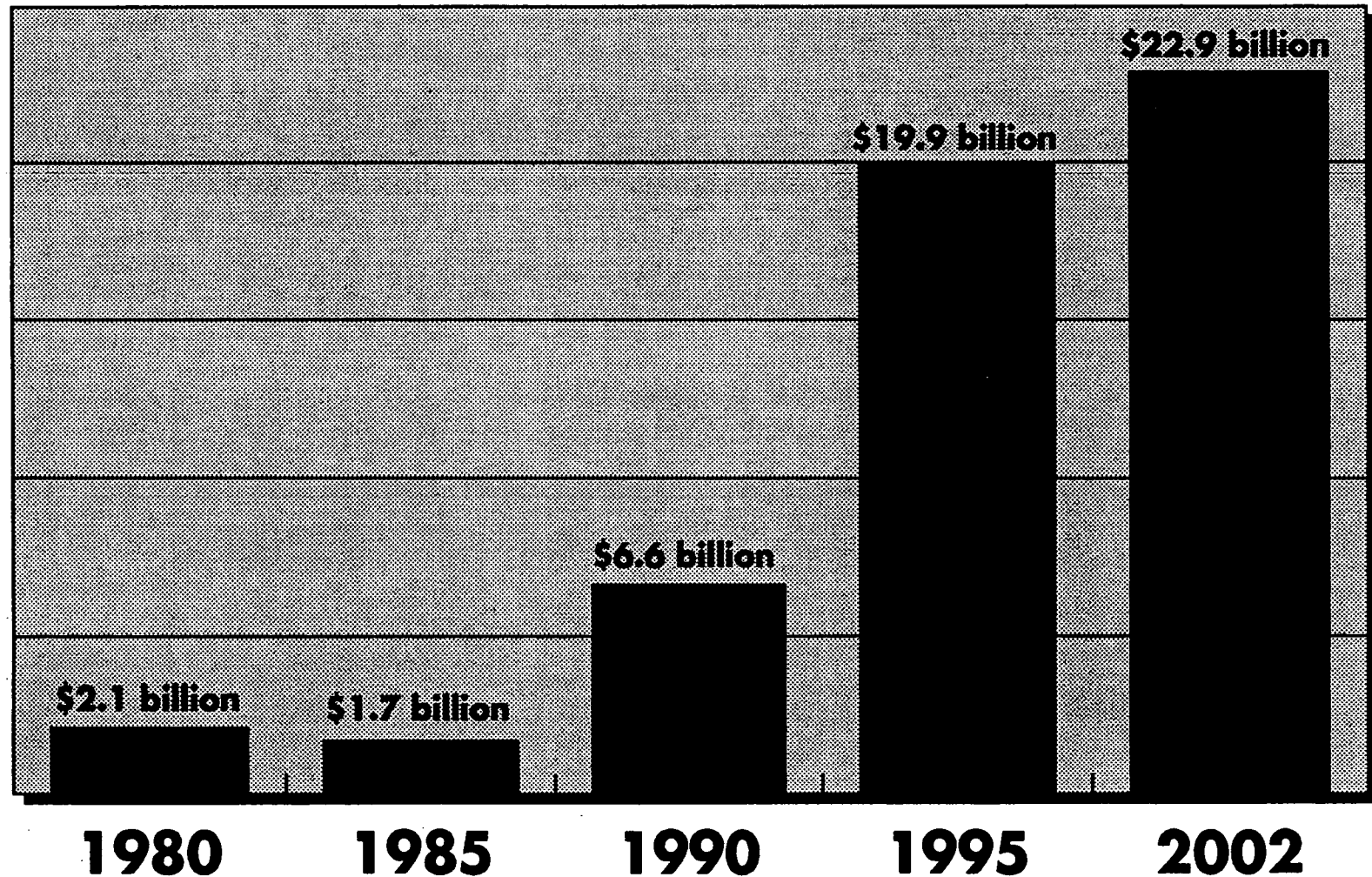
Maximum Benefit Grows After Senate Reforms



Source: Joint Committee on Taxation; Maximum Benefit is for two or more qualifying children.

Earned Income Credit

Spending Grows After Senate Reforms



Source: Joint Committee on Taxation

EARNED INCOME CREDIT

Two or More Children

Historical

YEAR	Credit Percent	Maximum Credit	Min Income for Max Credit	Max Income for Max Credit	Zero Credit Income
1976	10.00%	\$400	\$4,000	\$4,000	\$8,000
1977	10.00%	\$400	\$4,000	\$4,000	\$8,000
1978	10.00%	\$400	\$4,000	\$4,000	\$8,000
1979	10.00%	\$500	\$5,000	\$6,000	\$10,000
1980	10.00%	\$500	\$5,000	\$6,000	\$10,000
1981	10.00%	\$500	\$5,000	\$6,000	\$10,000
1982	10.00%	\$500	\$5,000	\$6,000	\$10,000
1983	10.00%	\$500	\$5,000	\$6,000	\$10,000
1984	10.00%	\$500	\$5,000	\$6,000	\$10,000
1985	11.00%	\$550	\$5,000	\$6,500	\$11,000
1986	11.00%	\$550	\$5,000	\$6,500	\$11,000
1987	14.00%	\$851	\$6,080	\$6,920	\$15,432
1988	14.00%	\$874	\$6,240	\$9,840	\$18,576
1989	14.00%	\$910	\$6,500	\$10,240	\$19,340
1990	14.00%	\$953	\$6,810	\$10,730	\$20,264
1991	17.30%	\$1,235	\$7,140	\$11,250	\$21,250
1992	18.40%	\$1,384	\$7,520	\$11,840	\$22,370
1993	19.50%	\$1,511	\$7,750	\$12,200	\$23,049
1994	30.00%	\$2,528	\$8,425	\$11,000	\$25,296
1995	36.00%	\$3,110	\$8,640	\$11,290	\$26,673

Clinton Expansion

1996	40.00%	\$3,564	\$8,910	\$11,630	\$28,553
1997	40.00%	\$3,680	\$9,200	\$12,010	\$29,484
1998	40.00%	\$3,804	\$9,510	\$12,420	\$30,483
1999	40.00%	\$3,932	\$9,830	\$12,840	\$31,510
2000	40.00%	\$4,058	\$10,140	\$13,240	\$32,499
2001	40.00%	\$4,184	\$10,460	\$13,660	\$33,527
2002	40.00%	\$4,320	\$10,800	\$14,100	\$34,613

Senate Reforms

1996	36.00%	\$3,208	\$8,910	\$11,630	\$26,731
1997	36.00%	\$3,312	\$9,200	\$12,010	\$27,111
1998	36.00%	\$3,424	\$9,510	\$12,420	\$27,521
1999	36.00%	\$3,539	\$9,830	\$12,840	\$27,941
2000	36.00%	\$3,650	\$10,140	\$13,240	\$28,341
2001	36.00%	\$3,766	\$10,460	\$13,660	\$28,761
2002	36.00%	\$3,888	\$10,800	\$14,100	\$29,201

EARNED INCOME CREDIT

One Child

Historical

YEAR	Credit Percent	Maximum Credit	Min Income for Max Credit	Max Income for Max Credit	Phaseout Income
1976	10.00%	\$400	\$4,000	\$4,000	\$8,000
1977	10.00%	\$400	\$4,000	\$4,000	\$8,000
1978	10.00%	\$400	\$4,000	\$4,000	\$8,000
1979	10.00%	\$500	\$5,000	\$6,000	\$10,000
1980	10.00%	\$500	\$5,000	\$6,000	\$10,000
1981	10.00%	\$500	\$5,000	\$6,000	\$10,000
1982	10.00%	\$500	\$5,000	\$6,000	\$10,000
1983	10.00%	\$500	\$5,000	\$6,000	\$10,000
1984	10.00%	\$500	\$5,000	\$6,000	\$10,000
1985	11.00%	\$550	\$5,000	\$6,500	\$11,000
1986	11.00%	\$550	\$5,000	\$6,500	\$11,000
1987	14.00%	\$851	\$6,080	\$6,920	\$15,432
1988	14.00%	\$874	\$6,240	\$9,840	\$18,576
1989	14.00%	\$910	\$6,500	\$10,240	\$19,340
1990	14.00%	\$953	\$6,810	\$10,730	\$20,264
1991	16.70%	\$1,192	\$7,140	\$11,250	\$21,250
1992	17.60%	\$1,324	\$7,520	\$11,840	\$22,370
1993	18.50%	\$1,434	\$7,750	\$12,200	\$23,054
1994	26.30%	\$2,038	\$7,750	\$11,000	\$23,755
1995	34.00%	\$2,094	\$6,160	\$11,290	\$24,396

Clinton Expansion

1996	34.00%	\$2,156	\$6,340	\$11,630	\$25,119
1997	34.00%	\$2,227	\$6,550	\$12,010	\$25,946
1998	34.00%	\$2,305	\$6,780	\$12,420	\$26,846
1999	34.00%	\$2,380	\$7,000	\$12,840	\$27,734
2000	34.00%	\$2,455	\$7,220	\$13,240	\$28,602
2001	34.00%	\$2,533	\$7,450	\$13,660	\$29,511
2002	34.00%	\$2,615	\$7,690	\$14,100	\$30,462

Senate Reforms

1996	34.00%	\$2,156	\$6,340	\$11,630	\$23,231
1997	34.00%	\$2,227	\$6,550	\$12,010	\$23,611
1998	34.00%	\$2,305	\$6,780	\$12,420	\$24,021
1999	34.00%	\$2,380	\$7,000	\$12,840	\$24,441
2000	34.00%	\$2,455	\$7,220	\$13,240	\$24,841
2001	34.00%	\$2,533	\$7,450	\$13,660	\$25,261
2002	34.00%	\$2,615	\$7,690	\$14,100	\$25,701